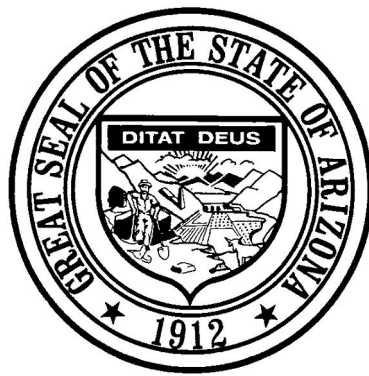


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RISK MANAGEMENT DIVISION**



FISCAL YEAR 2009 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2009 Annual Report, as required by ARS §41-623, summarizes liability, property, and workers' compensation expenditures, and provides information on loss prevention efforts and overall achievements of the Risk Management Division during the fiscal year.

The Risk Management Division was established in 1976, and is tasked with the management and mitigation of liability, property and workers' compensation claims. Statutes found in ARS §41-621 et seq., and administrative rules found in AAC- R2-10-101 through R2-10-601, outline the parameters of the program, including coverage for agencies, employees, boards and commissions. The Risk Management Division provides consultants to state agencies to help agency personnel develop specific programs that reduce or eliminate risk to the state. On an annual basis, Risk Management performs a comprehensive evaluation of its insurance program to determine the proper mix of purchased commercial insurance and risk retention.

Funding for Risk Management programs is provided from the Risk Management Revolving Fund. Revenues into the fund are generated as follows:

- An actuarial projection is developed for property and liability expenditures, outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums and attorney general defense. The total is then allocated and invoiced to agencies based on a formula that assesses risk exposure as well as historical losses.
- An actuarial projection is also developed for workers' compensation time loss expenditures, medical, outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums, and attorney general defense. The total is then allocated to agencies based on an allocation method from the National Council on Compensation Insurance (NCCI). The NCCI method calculates a rate per payroll using employee classifications modified by the agency's historical losses.

ACHIEVEMENT AND GROWTH

Fiscal Year 2009 marked a year of significant achievements and continued growth.

- Loss Prevention developed the Arizona State Employee Driver Record Application (ASEDRA) Program. The program allows state agencies to obtain and review motor vehicle records of state employees identified as authorized drivers in accordance with the AAC-Rule R2-10-207.12. ASEDRA was developed to identify employees who have exceeded a preset point value on their motor vehicle record, and/or have had a drivers' license suspended or revoked.
- Loss Prevention held a variety of conferences to assist state agencies address loss exposures:
 - *Prevention of Violence in the Workplace Awareness Training*
 - *OSHA 300 Log Recordkeeping*
 - *Workers' Compensation Return to Work Strategies*
 - *Electrical Safety in the Workplace*
- The Loss Prevention Section conducted three Risk Insurance Training Sessions (totaling approximately thirty-six attendees completing the course). Each session consisted of four separate training components totaling approximately fourteen to sixteen hours of training depending upon the level of knowledge of participants.
- Loss Prevention partnered with Arizona State University, Northern Arizona University and the Arizona Department of Administration Capitol Police to evaluate available safety programs. Risk Management provided funding for:
 - unlimited licensing usage to the 360 Stay Safe on-line training program for the universities
 - Shots Fired, Flash Point and Safe Passage training DVDs for use by ADOA Capitol Police and the Risk Management Lending Library, which focus on an individual's personal safety during travel and/or in the workplace.
- Loss Prevention partnered with the Arizona Department of Transportation Risk Management to inspect and evaluate exposure potential with respect to road safety. Loss Prevention also supported ADOT's efforts to obtain funding for enhancements and training as appropriate.
- Loss Prevention reviewed or is currently reviewing twenty-eight incidents with Fiscal Year 2009 losses greater than \$150,000. Loss Prevention is working with the respective agencies to identify and appropriately address relevant exposures, develop mitigation plans, implement plans, and monitor and/or modify plans for effectiveness.

- Workers' Compensation sponsored an educational seminar for forty state agency workers' compensation liaisons. The seminar theme was "Popular Workers' Compensation Topics". Guest speakers included a hand surgeon, a physiatrist, the Chief Administrative Law Judge from the Industrial Commission of Arizona, and an attorney who represents injured workers.
- A Document Management System (DMS) was tested for the Property & Liability Section. All open claims have been scanned and system implementation is expected before December 2009.
- A Document Management System (DMS) feasibility study was completed for the Workers' Compensation Section. The study identified efficiencies that were implemented immediately and concluded that the efficiency and effectiveness of the Workers' Compensation Section can be significantly improved through the use of a DMS.
- Risk Management implemented an on-line loss reporting system. The system provides state agencies the ability to gather timely insurance loss information.

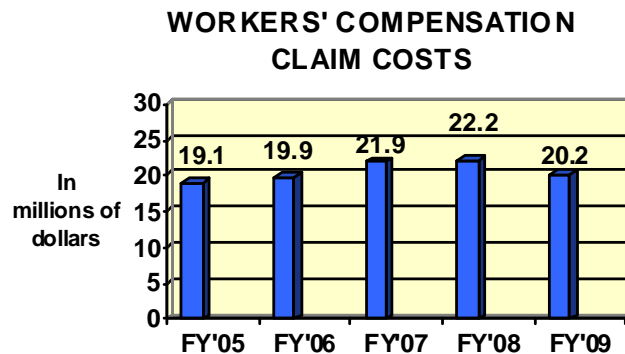
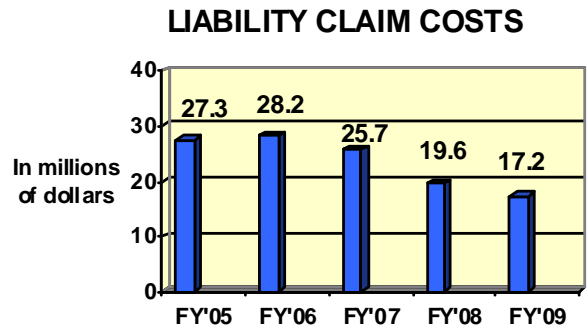
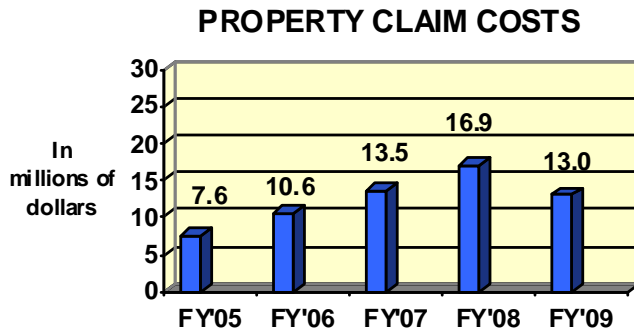
FISCAL YEAR 2009 COSTS AND COMPARISONS

Property expenditures in FY 2009 were \$13.0 million, which is a decrease of \$3.9 million from FY 2008; \$700,000 greater than the five-year average of \$12.3 million.

Liability expenditures for FY 2009 were \$17.2 million - down from \$19.6 million in FY 2008. The five-year average for liability expenditures is \$23.6 million.

Workers' Compensation expenditures in FY 2009 decreased by \$2.0 million from FY 2008; \$20.2 million versus \$22.2 million.

The following charts depict five-year cost comparisons:



LIABILITY PROGRAM

In the Fiscal Year 2009, there were 3,388 liability claims reported to the Risk Management Division against the state of Arizona. Total liability claim payments for Fiscal Year 2009, including outside counsel and allocated loss adjustment expenditures, were \$17.2 million. Figure 1 details the General Liability categories insured by the Risk Management Division. Automobile liability includes third party claims for injuries and property damage resulting from the use of automobiles by state employees engaged in state business. General liability includes third party bodily injury and property damage, highway maintenance, and negligence in oversight of state-managed programs. Medical malpractice includes errors and omissions by state medical professionals. The category of personal liability includes such areas as employment discrimination, defamation, and civil rights violations.

General Liability – Bodily Injury claims were the most expensive claims in the liability category, representing 54% of the total cost. Personal Liability was second and represented 18% of the total cost. Medical malpractice payments were \$2.6 million. The following table breaks down the number of claims and amounts paid by loss type.

Figure 1

Loss Type	Frequency	Liability Losses
General Liability – Bodily Injury	482	\$9,301,203
Personal Liability	552	\$3,135,527
Medical Malpractice	35	\$2,626,924
General Liability – Property	1,627	\$789,843
Automobile Liability – Bodily Injury	80	\$699,217
Automobile Liability – Property	612	\$633,064
Total	3,388	\$17,185,778

Figure 2 shows payments made in Fiscal Year 2009 for the agencies with the largest liability losses ranked in descending order.

Figure 2

Agency	Liability Losses
Department of Transportation	\$4,454,795
University of Arizona	\$3,024,450
Department of Public Safety	\$2,731,180
Department of Economic Security	\$1,851,699
Arizona State University	\$1,604,924
Department of Corrections	\$1,532,082
Sub-Total	\$15,199,130
All Other Agencies	\$1,986,648
Total	\$17,185,778

PROPERTY PROGRAM

In Fiscal Year 2009, there were 5,368 property claims totaling \$13.0 million reported by state agencies.

The top two loss categories by frequency of occurrence and severity of payments were real and personal property. Real property covers facilities owned by the state such as office buildings, prison facilities and general infrastructure. Personal property includes state owned vehicles, furniture, computers and other tangible property. Figure 3 shows frequency of occurrence and severity of payments for property losses.

Figure 3

Loss Type	Frequency	Property Losses
Real Property	919	\$7,514,843
Environmental Property	17	\$4,494,204
Personal Property	4,429	\$898,505
Other	3	\$122,815
Total	5,368	\$13,030,367

The following table shows payments made in Fiscal Year 2009 for the agencies with the largest property losses ranked in descending order.

Figure 4

Agency	Property Losses
Department of Administration	\$3,163,253
Arizona State University	\$2,349,460
University of Arizona	\$1,737,819
Arizona State Senate	\$978,032
Department of Transportation	\$824,357
Department of Corrections	\$766,045
State Land Department	\$576,289
Department of Education	\$531,802
Sub-Total	\$10,927,057
All Other Agencies	\$2,103,310
Total	\$13,030,367

WORKERS' COMPENSATION PROGRAM

The State Workers' Compensation Program provides benefits to state employees injured during the course and scope of their employment. The program pays medical, surgical, lost wages and hospital disability benefits as provided by law under the Arizona Workers' Compensation Act.

The Managed Care Incentive Program provides quality medical care for state employees injured on the job. More than 48 hospitals, 3000 physicians and 12 industrial clinics are available to employees within the network.

The Early Claims Notification System continues to be successful. This system involves early notification of workers' compensation claims by injured state employees or their supervisors. Studies confirm that early notification allows for early claims management intervention which translates to cost savings. The 542-WORK phone line, allows injured employees or their supervisors to call in the first report of an industrial injury to the workers' compensation unit 24 hours a day, 7 days a week. During non-business hours, state employees are able to respond to questions regarding their injury via an automated system.

The Early Return to Work with Modified Duty Program continues to prove effective in many state agencies. A disability management specialist works with injured workers, their supervisors and managers to find positions within their agency that allow the injured worker to return to work as soon as possible. Placing an injured worker in these modified duty positions enables the employee to make a smooth and safe transition to their former duties or to a new position that is suitable for them.

In addition to managing the Modified Duty Program, the disability management nurse has helped to implement the in-house Utilization Review Program. All medical diagnostic procedures must be reviewed for medical necessity and appropriateness before authorization. This process is typically completed within 24 hours to help ensure the recovery of injured employees.

Figure 5 ranks the frequency and severity of payments for workers' compensation claims in Fiscal Year 2009 by agency.

Figure 5

Agency	Frequency	WC Losses
Department of Corrections	814	\$5,496,025
Department of Economic Security	361	\$2,504,410
Department of Public Safety	190	\$1,793,370
University of Arizona	353	\$1,546,434
Department of Transportation	201	\$1,449,455
Arizona State University	233	\$1,219,424
Arizona Superior Courts	155	\$841,568
Department of Juvenile Corrections	171	\$782,981
Department of Health Services	155	\$729,895
Northern Arizona University	145	\$708,431
Sub-total		\$17,071,993
All other agencies	437	\$3,153,505
Total	3,215	\$20,225,498

LOSS PREVENTION PROGRAM

The Arizona Revised Statutes require each state agency to conduct risk identification and assessment, and implement a loss prevention program to reduce the frequency and severity of losses in the following areas:

- Real and personal property protection
- Employee safety in the work environment
- Federal and State standards for industrial hygiene and environmental protection
- Negligent acts that cause harm to third-parties

The primary responsibility of the Loss Prevention Unit is to work with state agencies to reduce or eliminate their exposure to risk. Risk Management Loss Prevention provides professional services in a variety of areas including property, liability, environmental, and worker protection.

Risk Management is pursuing statutory changes that will establish a Large Loss Support Unit (LLSU). The proposed statutory change will a) grant the LLSU members immunity from testifying in a civil or administrative proceeding, and b) make work product prepared by the LLSU inadmissible in a civil or administrative proceeding.

The proposed legislation will allow for the timely implementation of loss prevention plans to protect the public from similar accidents.

Loss Prevention provides professional Safety Consultants, Industrial Hygienists and Environmental Specialists to assist agencies in developing and implementing loss prevention programs. The Safety Consultants also provide assistance in solving everyday loss prevention problems in the following areas:

- | | | |
|------------------------|--------------------------|-------------------------------|
| ➤ Construction Safety | ➤ Security | ➤ Site and Hazard Assessment |
| ➤ Industrial Safety | ➤ Course of Construction | ➤ Health and Safety Education |
| ➤ Hazard Communication | ➤ Motor Vehicle Safety | ➤ CPR |
| ➤ Fire Safety | ➤ Emergency Planning | ➤ Ergonomics |
| ➤ Fair Safety | | |

Assistance is provided in risk assessment and corrective action, program development and implementation by means of Assessment, Consultation, and Evaluation (ACE) Reports. An ACE report is a focused inspection and consultation to assess a particular risk exposure, along with written recommendations for corrective actions. The top three ACE subjects and recommended corrective actions are:

Fire and Security

- Fire Extinguisher Inspection, Maintenance, Service and Training
- Training on Fire Protection Practices
- Wildfire Preventative Actions
- Security Lighting Enhancements
- Fire Door Repair

Safety Inspection

- Guardrail Installation
- Emergency Evacuation Plans (Drills)
- Repair of Emergency Lighting/Exit Signs
- Secure Machinery

Building Indoor Air Quality

- Air Diffuser Cleaning
- General HVAC Maintenance
- Mold Consultation/Testing/Mitigation

OCCUPATIONAL HEALTH SERVICES

Occupational Health Services is responsible for the post offer physical examinations of potential state employees whose jobs put them at risk of occupational illness or injury. Occupational Health Services schedules, evaluates, and pays for these examinations for various state agencies.

In Fiscal Year 2009, 819 post-offer exams were conducted. The average number of days to process exam findings was less than one day. Processing exam findings measures the turn-around period from the time the staff nurse receives the prospective state employee's medical information until the agency is notified of the candidate's status.

The total cost for Occupational Health Services exams in Fiscal Year 2009 was \$89,752.